GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:144
ANSWERED ON:10.12.2004
INFLATION RATE QUESTION
Singh Shri Mohan;Singh Shri Prabhunath

Will the Minister of FINANCE be pleased to state:

(a) the expected average rate of inflation in the year 2004-05 as per the figures of the Reserve Bank of India and its effect on the economic growth rate;

(b) the expected economic growth rate of India during this period as per the prediction of the Reserve Bank and the percentage decrease thereof as compared to the previous years;

(c) the reasons therefor;

(d) whether it is a fact that the RBI hiked banks` Credit Reserve Ratio (CRR) on September 11, 2004 to check rising inflation ;

(e) if so, whether these measures brought the rising inflation under control and if not, the reasons therefor ; and

(f) estimated excess money in the market, wherefrom and how has it come and the steps the Government is taking to mop up this excess money ?

Answer

Finance Minister(SHRI P. CHIDAMBARAM.)

(a),(b), (c) ,(d) , (e)& (f) ; A statement is placed on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA QUESTION NO. 144 FOR 10th DECEMBER 2004

(a) The RBI`s Mid-term Review of Annual Policy released in October 26, 2004 placed the WPI inflation , on a point - to - point basis , at around 6.5 per cent (as against 5.0 per cent projected earlier), assuming that there would be no further major supply shock and liquidity conditions woud remain manageable .

(b) & (C). The RBI, in its Mid-term Review has placed the real GDP growth in 2004-05 in the range of 6.0 to 6.5 per cent as compared to its May 2004 projection of 6.5 to 7.0 per cent . The revision is on account of deficient rainfall in some parts of the country and its likely adverse impact on kharif crop output and the adverse impact of higher oil prices on the GDP.

(d) Yes Sir . As part of anti-inflationary measures and to check the liquidity overhang in the system, the RBI hiked the cash reserve ratio

(CRR) on September 11, 2004 by 50 basis points to 5 per cent.The CRR was raised in two stages by 25 basis points each, first, from the fortnight beginning September 18, 2004 and then from October 2, 2004.

(e) As a result of various fiscal and monetary measures taken by the Government , the annual point- to -point inflation in terms of the Wholesale Price Index (WPI) has come down from the peak level of 8.7 per cent reached in the week ending August 28, 2004 to 7.3 per cent in the week ending November 20, 2004.

(f) The Reserve Bank manages the liquidity through two instruments, viz., the market stabilization scheme (MSS) and liquidity adjustment facilities(LAF). While the excess liquidity has come down with the combined effect of a slowdown in capital inflows and better domestic absorption on account of higher credit demand, it is still at around Rs.67,000 crore as announced in the RBI`s Mid-term Review of Annual Policy for the year 2004-05. During 2004-05, liquidity absorption through MSS was Rs.54,146 crore up to October 21, 2004. With the issuance of MSS, the repo volumes tendered under liquidity adjustment facility (LAF) declined from an average of Rs.70,523 crore in April to Rs.13,805 crore in October 2004 (up to October 21). The liquidity that remained sterilised declined from an average of about Rs.81,260 crore in April 2004 to Rs.67,321 crore in October 2004 (up to October 21).